

**U.S. NATIONAL SECURITY IMPLICATIONS  
OF CHINESE INVOLVEMENT IN LATIN AMERICA**

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## FOREWORD

In this monograph, Dr. Evan Ellis seeks to do several things. He documents and examines the character of the new and increasing Chinese engagement in the Western Hemisphere. He then takes the analysis a step further by examining some of the potential dynamics of the Chinese engagement and its consequences for the long-term security interests of the United States. Dr. Ellis argues that China is both a significant competitor, and a potential partner of the United States in the region. Although he argues that China increasingly will vie with the United States for the hemisphere's resources and political allegiances, he also notes that China's growing dependence on its trade and investment in Latin America will give it security and stability interests that coincide with those of the United States. At the same time, the author warns that the combination of competition, trade, investment, political interests, and concomitant Chinese population increase in the region is likely to change the economic structure of the region in ways that could possibly sow the seeds for the next generation of political instability in Latin America. In any case, it is clear that Chinese engagement in the Western Hemisphere will challenge traditional notions of U.S. dominance in the area.

By presenting this provocative analysis, the Strategic Studies Institute expects to contribute to the formulation of new thinking on how the United States can address the national security challenges that it presents, while also leveraging the possibilities that it presents for the long-term health and well-being of all the countries of the region.



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R. EVAN ELLIS is an associate with Booz, Allen & Hamilton, Inc., who focuses on defense transformation and Latin American security issues. Dr. Ellis' work includes studies of political mobilization in Venezuela; analysis of democratic security and U.S. operations in Colombia; work on the 2003 and 2004 Joint Transformation Roadmaps and the 2003 and 2004 Naval Transformation Roadmaps; and an examination of the information warfare capabilities of organized crime in Colombia. As a practitioner of system dynamics, he has also played a role in a number of major defense system development efforts. His system dynamics work has also taken him into the arena of business strategic planning, naval systems engineering, nuclear materials management and computer network architecture analysis. His publications include "Latin and South America: A Case Study in Emergent Geopolitical Viruses," "Organizational Learning Dominance: The Emerging Key to Success in the New Era of Warfare" and "Nodal Analysis and Its Role in Precision Strike." Dr. Ellis holds a Ph.D. in political science with a comparative politics specialization in ethnic violence.

## SUMMARY

In this monograph, the author argues that China's pursuit of long-term strategic objectives is leading the country to increase its presence in Latin America, with serious national security implications for the United States. Sustained Chinese economic growth requires ever greater quantities of basic commodities such as petroleum products, coal, iron and steel, and strategic minerals. As the new generation of Chinese leadership under Hu Jintao has moved away from the more cautious approach of his predecessor, Jiang Zemin, China has begun to aggressively court Latin America as its principal source of supply outside Asia. Figures from the Chinese National Statistics Office show that, for example, 77 percent of all Chinese foreign investment outside Asia in 2003 went to Latin America.

The pattern of Chinese investment in countries such as Argentina, Brazil, and Chile suggests that the Asian giant is seeking to assure access to critical commodities by constructing vertically integrated supply networks over which it has leverage. China is purchasing interest in key Latin American suppliers such as the Canadian minerals firm Noranda, or the Argentine oil subsidiary PlusPetrol Norte. It is also building cooperative relationships with supplier governments such as the joint oil exploration and refinery construction deals signed with Venezuela and Brazil in 2004. Where necessary, China is also investing in the infrastructure of Latin American countries to help them more effectively bring their products to market.

In addition to documenting China's aggressive new posture in specific Latin American countries, this monograph argues that the expanded Chinese trade and investment presence in the region ultimately will give China a stake in the politics of the region and may tempt it to become involved in the region's security affairs. Expanded Chinese trade and investment in Latin America, for example, will expand greatly the community of Chinese nationals in the region. The broadened community of Chinese nationals multiplies opportunities for incidents involving those nationals, while also expanding the community in China with an interest in the region. At the same time, significant Chinese investments in Latin American extractive

industries and increasing dependence on its production will cause the Chinese government to seek to deflect political movements in Latin American countries that could expropriate these investments or disrupt these resource flows.

Ultimately, this monograph argues that Chinese engagement with Latin America will make the nation both a powerful competitor and a potential partner for the United States in the region. On one hand, China, with major investments in Latin America and dependence on its material flows, is likely to be a nation interested in reducing political instability, armed groups, and criminal activity in the region, rather than fueling radical populism and insurgency. On the other hand, the United States needs to consider to what degree it is willing to accept a China that has increasing leverage in Latin America through its investment and trade presence—and a growing interest in the political course of the region. Now, rather than later, is the time for the United States to begin seriously considering how to most constructively engage the Chinese in the Western Hemisphere.

## **U.S. NATIONAL SECURITY IMPLICATIONS OF CHINESE INVOLVEMENT IN LATIN AMERICA**

The November 2004 Asia-Pacific Economic Cooperation (APEC) summit resounded with echoes of trouble for the United States in the Western Hemisphere. While the U.S. delegation quarreled with its Chilean hosts over security protocols, Chinese President Hu Jintao finalized \$100 billion in investment commitments to the region.<sup>1</sup> While the U.S. delegation came to APEC talking about terrorism, deficits, and the North Korean nuclear program, the Chinese highlighted their potential as a new source of foreign investment and an enormous market for the types of commodities that Latin America has to sell.

The events of the APEC summit should serve as a wake-up call to U.S. policymakers whose resources and attention have been focused on more distant challenges. Chinese economic growth and resource needs have led the Asian giant to break with past precedent and pursue a policy of economic engagement with the Western Hemisphere that has significant national security implications for the United States. According to one report, "With frequent high-level visits and billions of U.S. dollars worth of economic and trade cooperation, [ties between] China and Latin America have entered the 'best period in history'."<sup>2</sup>

The underlying demographic and economic trends driving China's engagement with Latin America are significant and enduring—indicating that China's increased presence in this hemisphere is likely to both endure and expand. This monograph explores these trends, their manifestations, and some of the dynamics through which they may impact the national security of the United States.

### **DRIVERS OF CHINESE TRADE AND INVESTMENT IN LATIN AMERICA**

China's engagement with Latin America is driven, in part, by needs stemming from the sustained rapid growth and development of the Chinese economy.<sup>3</sup> Reflecting a combination of population growth, industrialization, and modernization, between 1978 and 2002, China's gross domestic product grew at an average rate of 9.4 percent.<sup>4</sup> In

2003, despite predictions that such sustained high rates of growth were unsustainable, the Chinese economy grew by 9.7 percent.<sup>5</sup> The expansion of the Chinese economy currently accounts for 25 percent of all global economic growth.<sup>6</sup> According to state projections, the growth of the Chinese economy and its associated demand for raw materials is expected to continue.<sup>7</sup> Moreover, because this growth is linked to a deliberate government plan to extend industrialization to the interior of the country,<sup>8</sup> China's demand for both energy and other material resources is likely to grow at levels equal to or greater than the rates of growth of its economy.<sup>9</sup>

As China continues on its path of sustained, dramatic growth, the country's resource needs are outstripping its ability to obtain these resources at home, or within Asia more broadly. In the energy sector, as an example, Chinese imports of crude oil increased almost 40 percent during 2004.<sup>10</sup> By 2025, if current trends continue, the Energy Information Agency (EIA) forecasts that China will import 9.4 million barrels of oil per day. At the same time, Chinese attempts to secure sources of oil, including projects in the South China Sea as well as pipeline deals from Russian and Central Asian fields, have been beset by a series of difficulties. Growing demand is similarly exceeding domestic supply with respect to strategic minerals, even in sectors in which China has traditionally had a substantial domestic production capability.<sup>11</sup> The current compound annual growth rate in Chinese demand for strategic minerals is 17 percent for copper, 15 percent for zinc, and 20 percent for nickel.<sup>12</sup> Reflecting these growth trends, Chinese imports have expanded accordingly. In 2003, Chinese imports of nickel doubled, while imports of soybean products increased by 70 percent.<sup>13</sup> China also has become the world's largest importer of iron ore, with its imports of this commodity increasing by 33 percent in 2003 alone.<sup>14</sup> In 2002, China surpassed the United States to become the world's largest consumer of copper. Such growing resource needs, in combination with problems in meeting them within Asia, increasingly creates a long-term imperative for China to look further abroad to secure long-term sources of supply.

In its ongoing search to secure strategic resources to sustain future growth, Latin America simply has too many commodities that China needs in quantities too large for the Asian giant to ignore. Although Latin American oil production is relatively modest



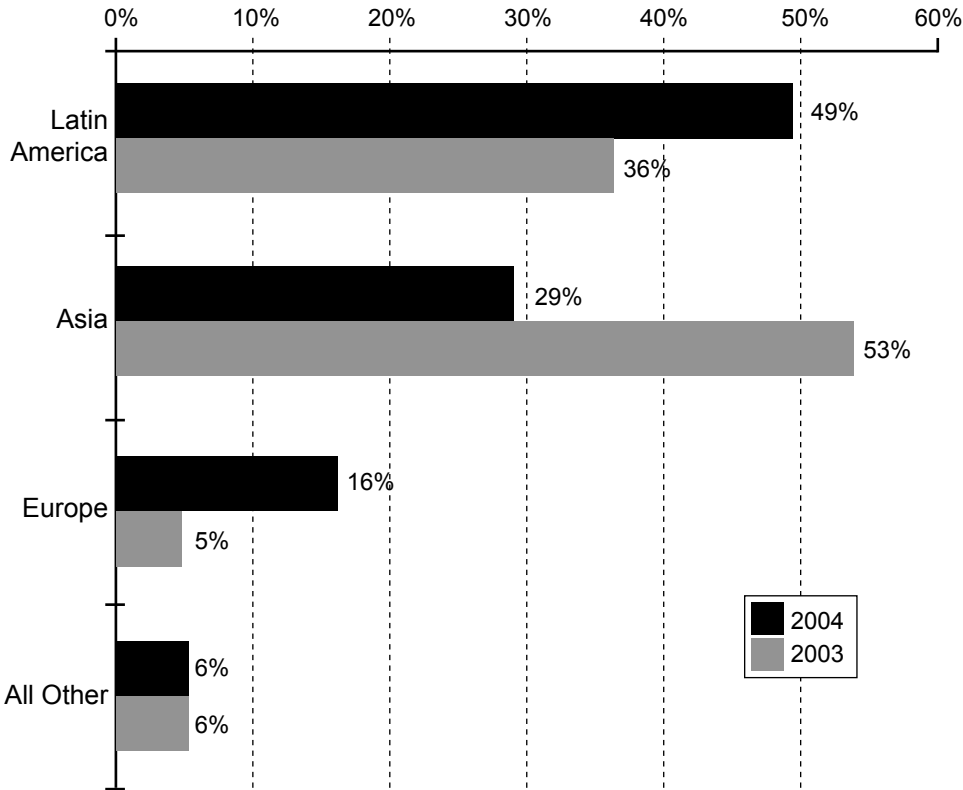
compared to that of the Middle East, for example, the 5.5 percent of global production that it represents is still significant enough to merit China's attention as part of a larger global strategy.<sup>15</sup> Moreover, Latin America dominates the global market with respect to certain "niche" commodities of interest to China. Venezuela, for example, currently has the world's largest proven reserves of the low-grade petroleum product *ormulsión*. Similarly, Chile is the world's leading producer of copper, a strategic mineral identified by the Chinese state as an item in short supply.<sup>16</sup> China currently purchases over \$1 billion of its copper from Chile annually.<sup>17</sup>

In examining China's aggressive new posture in Latin America as a response to the strategic imperatives of sustained growth and resource needs, it is also important to note the human leadership context through which these needs, and the alternatives for meeting them, are interpreted. The expansion of Chinese trade with and investment in Latin America coincides with the leadership transition from Jiang Zemin to Hu Jintao, with the 16th Congress of the Chinese Communist Party in November 2002 marking a particularly important milestone in this shift. Hu Jintao and his leadership team rose to power in a China no longer living in the ideological shadow of the Soviet Union, with a far larger economy than that of their predecessors, and with a generation of relative political stability. As such, the new Chinese leadership has interpreted the opportunities and risks represented by engagement in Latin America very differently than did its predecessors. As China scholar Murray Scot Tanner notes, "Hu Jintao is regarded as less concerned than his predecessor in avoiding actions that would offend the United States . . . particularly where it involves China's ability to engage "third-world countries."<sup>18</sup>

## **THE SHAPE OF CHINA'S NEW ENGAGEMENT IN LATIN AMERICA**

While Latin America is not the only region in which China is developing its long-term resource strategy, it is currently the principal economic focus of China outside Asia. Moreover, as demonstrated at the November 2004 APEC summit in Santiago, Chile, China is now engaged in a course that demonstrates its willingness to significantly raise its visibility in the region.

In conjunction with his trip to the APEC summit, Hu Jintao signed 39 new cooperative agreements in a wide variety of fields<sup>19</sup> and announced \$100 billion in new Chinese investment initiatives in the region,<sup>20</sup> including \$30 billion for Chile, Argentina, and Brazil alone.<sup>21</sup> The significant jump in Chinese investment in Latin America has two components. First, Chinese foreign investment globally has expanded tremendously in recent years as a function of a Chinese effort to “internationalize” key businesses. In 2004, Chinese companies invested \$3.62 billion in nonfinancial sectors abroad, representing a 27 percent increase over the previous year.<sup>22</sup> Second, and more importantly, Latin America is by far the central focus of the new foreign investment strategy. As shown in Figure 1, almost half of all Chinese direct investment abroad in 2004 went to Latin America, almost doubling the quantity of investment going to China’s neighboring states in its own region.<sup>23</sup>



**Figure 1. Distribution of Chinese Foreign Investment.**

In parallel with the growth in Chinese investment, Chinese bilateral trade with Latin America has also increased dramatically over the past several years, although beginning from a relatively low base. Total Chinese bilateral trade with Latin America more than doubled, from \$12.6 billion in 2001 to \$26.8 billion in 2003.<sup>24</sup> In the first 7 months of 2004, Chinese trade with Latin America expanded by 54.5 percent<sup>25</sup> and is on track to reach \$30 billion in 2004.<sup>26</sup> A significant part of this increase in bilateral trade was produced by a major expansion of exports from Latin America to China. Latin American exports to China, largely in extractive sectors, increased by 73 percent in 2003 alone, to reach a level of \$10.9 billion.<sup>27</sup>

In this strategy, China is not simply looking to Latin America as a free-market vendor of ever increasing quantities of the strategic materials that it requires for economic growth. Rather, the Chinese are seeking to achieve assured sources of supply in Latin America through a strategy that focuses on securing the entire supply chain in critical industries. This strategy of “vertical integration” involves using strategic purchases and investments to ensure an acceptable amount of leverage over, and functionality of, all elements of the supply chain. Depending on the characteristics of the particular supply chain and the possibilities afforded by the situation, this may involve purchasing a stake in the key foreign industries to which it requires Chinese access—and even investing in the transportation infrastructure of the target country to facilitate bringing the product to market. Reflecting this strategy of “vertical integration” in strategic minerals, 52.8 percent of Chinese overseas investment in 2004 was concentrated in the mining sector.<sup>28</sup>

The remainder of this section analyzes Chinese interests, patterns of trade, and major initiatives in select countries in the region, and illustrates the manner in which key Chinese trade and investment deals are consistent with the pursuit of a strategy of vertical integration in key resource sectors.

## **Venezuela.**

It can be argued that Venezuela is currently China’s principal strategic partner in Latin America, both in terms of the volume of investment, as well as in the nature of the relationship between

the two countries.<sup>29</sup> China currently has over \$1.5 billion invested in Venezuela—prior to the recently announced \$100 million in investment commitments, the largest investment position of any country in the region.<sup>30</sup> Bilateral trade between China and Venezuela increased from \$150 million in 2003 to \$1.2 billion in 2004,<sup>31</sup> and is anticipated to reach \$3 billion in 2005, based on agreements signed during the state visit of Venezuela's populist president Hugo Chávez Frias to China during the 2004 Christmas holiday,<sup>32</sup> as well as a series of 19 cooperation accords signed between Venezuela and China in January 2005.<sup>33</sup> These figures reflect growth in both imports and exports. Venezuelan imports from China grew by 120 percent over 2004 to reach \$560 million, while similarly growing oil exports have allowed Venezuela to maintain a net trade surplus.<sup>34</sup>

The Chinese relationship with Venezuela reflects not only Chinese interest in Venezuelan resources, but also the receptivity of President Chávez. His interest in developing alternative markets for Venezuelan petroleum, and developing a hedge against U.S. influence in the region, make him a strong potential Chinese ally.<sup>35</sup> In his high-profile state visit to China, Chávez signed a number of accords in which he committed Venezuela to put its petroleum production "at the disposition of the great Chinese fatherland."<sup>36</sup> On the other hand, he is also a potential threat to Chinese interests, insofar as his Bolivarian revolution and support for indigenous populism and anti-globalist causes could foment instability in China's trading partners in Latin America, and undermine Chinese access to the resources of the region.

China's principal interest in Venezuela, based on trade and investment patterns, is petroleum products. Exports of Venezuelan petroleum products to China registered a 75 percent increase in 2003,<sup>37</sup> and a 25 percent increase in 2004, reaching a level of \$640 million.<sup>38</sup> Although the volume of petroleum shipments from Venezuela to China is limited and there are restrictions on the size of tankers and cargo ships which can be sent through the Panama Canal, infrastructure projects are under consideration which could sidestep these constraints by using pipelines to carry the oil overland to Pacific ports—either across Colombia or Panama.

As part of a series of accords signed during the state visit of Chávez to China in December 2004, and leveraging the close

working relationship with the Chinese developed over recent years,<sup>39</sup> Venezuela will give China access to 15 mature oil fields, with proven reserves of up to a billion barrels of oil, for Chinese firms to develop and exploit.<sup>40</sup> As part of the accord, China will invest \$350 million toward bringing these fields on line,<sup>41</sup> and in exchange will be allowed to build refineries on Venezuelan territory to process the oil.<sup>42</sup> The agreement will help the Venezuelan government to overcome the shortfalls in technical management that it created when it fired half of all workers in its state oil firm, Petroleos de Venezuela (PdVSA), following the December 2002-March 2003 national strike. By allowing the Chinese to directly develop these fields, Venezuela will be able to almost double its production despite a lack of internal technical capacity to do so, selling significant quantities of oil to China while still serving its traditional markets.

As a compliment to its assistance to Venezuela in extracting its oil, China is also investing \$60 million in a number of projects to help Venezuela extract its natural gas.<sup>43</sup> During a scheduled state visit at the end of January 2005, Chinese Vice-President Zeng Quinghong and senior directors of China National Petroleum Corporation (CNPC) will analyze the viability of even greater Chinese investment in the development of Venezuelan natural gas reserves.<sup>44</sup>

A third significant element of Chinese engagement with Venezuela in the petroleum sector involves the Chinese purchase of Venezuelan ormulsión, and conversion of Chinese facilities to use it for the generation of electricity. Ormulsión is a low-grade, high-pollution content fuel oil traditionally given little or no value because of the lack of a global market for its use. In December 2001, CNPC and PdVSA established the joint venture Orifuels Sinoven, S.A (Sinovensa) and invested \$330 million to develop a capability to produce 6.5 million metric tons of ormulsión per year by the end of 2004. In conjunction with this effort, in November 2003 CNPC began constructing a special new type of power plant capable of burning ormulsión in the Guangdong province of China.<sup>45</sup> Through a deal finalized in 2004, China's commercial agent, Petrochina, a subsidiary of CNPC, is currently purchasing 1.5 millions of tons of orimulsión annually from Venezuela.<sup>46</sup> By building the new power plant, China is able to make use of the Venezuelan ormulsión, which it is able to

purchase at relatively low cost because of the lack of a global market. Moreover, Venezuela is China's natural partner for the ormulsión deal, in that the Latin American country currently possesses the world's largest proven ormulsión reserves—almost double those of Saudi Arabia, the next largest source.

China is also helping Venezuela to extract its coal. At the end of 2004, China announced that it will invest in the development of mines in the Orinoco River Basin area in the south of the country.<sup>47</sup> China Minmetal and the Venezuelan firm, Corpozulia, are slated to sign an agreement during the scheduled state visit of Chinese Vice President Zeng Quinghong at the end of January 2005 that would use Chinese investment to increase Venezuelan carbon production.<sup>48</sup>

Beyond the domain of extractive industries, the Chinese-Venezuelan partnership has extended to the agricultural sector, where Venezuelan interests in improving agricultural productivity coincide with Chinese interests in developing reliable, friendly suppliers of foodstuffs. As part of the accords reached between the two nations during the Christmas 2004 visit of Chávez to China, the Asian giant has agreed to provide Venezuela with agricultural machinery and credits for the nation to increase its food production.<sup>49</sup>

In keeping with the vertically integrated strategy that China has pursued in other Latin American countries to secure access to sources of supply for strategic materials, China announced in December 2005 that it will invest in the construction of a national railway line, helping Venezuela to transport raw materials and foodstuffs to market.<sup>50</sup>

Finally, China is also helping Venezuela to develop its telecommunications industry, including assistance to Venezuela in access to space. As part of the series of accords reached during the Christmas 2004 visit of Hugo Chávez to China, the two nations announced that China will launch a telecommunications satellite for Venezuela, helping the nation become less dependent on U.S. telecommunications networks.<sup>51</sup> The initiative built on broader discussions of how China could help Venezuela to develop and modernize its telecommunications infrastructure more broadly, including a December 2004 visit to Venezuela by Vice minister of the Chinese information ministry Lou Kinjian to discuss possible collaboration on telecommunication projects with the Venezuelan telecommunications firm, CVG Telecom.<sup>52</sup>

## Chile.

Chile is strategically significant to China, not only as a supplier of copper and other minerals, but also in respect to its foodstuffs, and in terms of its commercially developed Pacific ports, which provide potential Chinese access to a number of Latin American markets. Bilateral trade between Chile and China in 2004 expanded more than 50 percent, to a level of \$5.365 billion.<sup>53</sup> Chilean exports to China reached \$3 billion and could increase by \$500 million during the coming year.<sup>54</sup>

Key Chinese initiatives in Chile involve its copper and strategic materials industries, reflecting Chinese efforts to secure access to these minerals through purchasing an interest in key Chilean suppliers.<sup>55</sup> Of these, China is particularly interested in Chilean copper, insofar as it is currently considered a “short supply” item by the Chinese government.<sup>56</sup> Recent Chinese deals in the Chilean minerals sector reflect this attempt to acquire leverage at key points in the supply chain, including Chinese acquisition of a Canadian minerals firm, Noranda, and investment in the Chilean state copper firm, Coldeco. On September 24, 2004, the Chinese state firm, Minmetals, announced its entry into exclusive negotiations to purchase Noranda, a transaction of approximately \$5 billion.<sup>57</sup> Noranda is not only a major producer of Copper in Chile, but is also one of the world’s largest producers of nickel and zinc.<sup>58</sup> In addition to the Noranda deal, Minmetals also recently signed an agreement with Coldeco valued at \$1.93 billion, assuring Chinese access to Chilean copper over the next 20 years.<sup>59</sup> The deal is the most recent in a series of initiatives involving Coldeco, including significant Chinese participation in an October 2004 bond issue. Overall, Asian interests purchased 30 percent of a new bond issue released by Coldeco—representing the first time that Asian interests had participated in such a bond issue, and supplying it with \$150 million in capital.<sup>60</sup>

In addition to its role as a supplier of copper and other strategic materials, Chile is also emerging as a potentially significant exporter of foodstuffs to China. Chilean agricultural exports to China increased 45 percent from January to September 2004 alone, with exports of \$273 million in that period.<sup>61</sup>

## **Brazil.**

Brazil plays an important role in China's relationship with Latin America. The nation is both a large, mature market for Chinese manufactured products, as well as a major supplier of soybeans, soy oil, iron ore, steel, and wood.<sup>62</sup> In terms of specific countries, Chinese trade with Brazil increased from \$1.84 billion in 1999 to \$7.98 billion in 2003.<sup>63</sup> In the first 11 months of 2004, China-Brazil bilateral trade expanded by 56.2 percent in relation to the same period in 2003, to reach a level of \$11.3 billion, making Brazil China's leading trade partner in Latin America by dollar value.<sup>64</sup> In a November 2004 interview, Chinese spokesman Yang Yang observed that cooperation between China and Brazil was advancing even more rapidly than that with Argentina because Brazil had clearly outlined specific areas of possible cooperation to the Chinese.<sup>65</sup>

Brazilian diplomatic engagement with China has paralleled this increasing trade. In May 2004, Brazilian president Lula De Silva visited China, accompanied by business leaders.<sup>66</sup> President Hu Jintao reciprocated with a high-profile visit to Brazil in conjunction with the November 2004 APEC summit.

For Brazil, iron ore and associated products have been key items in its trade with China. Brazilian exports of iron registered the most significant expansion, increasing by 500 percent over the past year.<sup>67</sup> During a state visit by President Hu Jintao to Brazil in November 2004, the two nations announced that China will invest \$10 billion in Brazil over the next 3 years, and that within this period, the nations expect bilateral trade to double to \$20 billion per year.<sup>68</sup>

In addition to iron, China is also very interested in Brazilian petroleum products. Key recent Chinese initiatives in this sector include Sinopec plans to construct a Trans-Brazilian gas pipeline and a Sinopec-Petrobras accord for joint oil exploration and refinery construction. In May 2004, Sinopec signed an accord with the Brazilian petroleum giant, Petrobras, to cooperate in the areas of exploration and refineries, and Petrobras anticipates doubling its exports of petroleum to China over the next year. The accord also encompassed the creation of infrastructure that would support these oil flows, including the construction of petroleum storage facilities in



the Chinese port of Ningbo to receive Brazilian oil.<sup>69</sup> The agreement came on top of a series of other recent deals strengthening the Brazilian-Chinese relationship in the petroleum sector, including Brazil's selection of Sinopec, the second largest Chinese petroleum firm, to construct a gas pipeline that will span Brazil from north to south,<sup>70</sup> as well as the opening of a branch office in Beijing by Petrobras.<sup>71</sup>

In addition to iron and petroleum products, China is also interested in Brazilian foodstuffs, such as soy, beef, and chicken, reflecting the need by the Asian giant to supplement its small agricultural belt to feed its population.

In support of its interest in helping Brazil export products of interest, China has also made commitments to invest in the modernization of Brazilian transport infrastructure, including a potential investment of \$4.82 billion to expand and modernize the Brazilian railway system.<sup>72</sup>

Although not directly tied to Chinese resource needs, China and Brazil have also pursued significant cooperation in the aerospace arena. The two nations have jointly developed and launched two earth research satellites, with two more planned by 2008.<sup>73</sup> The first satellite, the China-Brazil Earth Resources Satellite (CIBERS-1) was launched in October 1999, while the second was launched in late 2004. While CIBERS-1 was an environmental monitoring satellite that did not have significant military utility, it reportedly did assist China in developing real-time digital photo technology—thus increasing the capabilities of Chinese military imagery intelligence satellites. Moreover, by giving the Chinese access to Brazilian satellite tracking facilities, this space cooperation has arguably helped China to gain a more comprehensive picture of the flight paths of U.S. satellites.<sup>74</sup> In addition to space cooperation, China also has established ties with Brazil's leading aircraft manufacturer, Embraer. Pursuant to an agreement signed in December 2002 with significant technology transfer implications, Embraer established a production facility in the Chinese city of Harbin, and is currently producing mid-sized ERJ 145 regional jets in the facility.<sup>75</sup>

## Argentina.

As elsewhere in Latin America, Chinese trade with Argentina has increased significantly over the past several years. In 2003, bilateral Argentina-China trade reached \$3.176 billion—an increase of 122 percent over the previous year.<sup>76</sup> Exports by Argentina to China alone increased by 143.4 percent to \$2.56 billion, and are planned to increase to \$7 billion over the next 5 years according to accords signed between the two nations during Hu Jintao's visit to Argentina in November 2004.<sup>77</sup>

As in Brazil, Argentine diplomatic engagement with China has paralleled the expansion of trade between the two nations and the growth in Chinese investment. In June 2004, Argentine President Nestor Kirchner visited China, accompanied by business leaders.<sup>78</sup> As with Brazil, President Hu Jintao visited Argentina in conjunction with the November 2004 APEC summit, signing letters of intent for investments in Argentina that could be worth up to \$20 billion.<sup>79</sup> With this investment, President Kirchner is believed to be seeking a path to cover Argentina's short-term debt payment obligations, and over the long term, to free Argentina from the policy oversight of the International Monetary Fund (IMF).<sup>80</sup>

To a greater extent than elsewhere in Latin America, a number of factors have coincided to limit the growth of the China-Argentina economic relationship. These include the difficulty in moving goods from Argentina to Asian markets—either over the Andes, through the Panama Canal, or eastward via Atlantic routes. Limitations also include a strong local business lobby in Argentina, which has pressed the Argentine government for protection against Chinese products. Reflecting such pressures, in December 2004, for example, President Kirchner signed two decrees restricting imports of Chinese textile products to a level tied to previous year sales.<sup>81</sup>

Current Chinese interest in specific Argentine industries revolves around the nation's limited deposits of iron and petroleum—but also includes cooperation in nuclear energy and interest in the potential role of Argentina as a mature market for Chinese products.

The Argentine oil industry was one of the focuses of the package of investment commitments made by the Chinese at the November

2004 APEC summit. Indeed, of the \$20 billion in potential Chinese investments in Argentina over the next 10 years, \$5 billion of these involved the exploration and production of petroleum products.<sup>82</sup> Complementing and predating these commitments, the Chinese petroleum firm, Sonangol, is currently engaged in a joint venture with the new Argentine state energy firm, Energía Argentina SA (Enarsa), in which it has committed \$4.82 billion to explore potential oil fields off the coast of Argentina, and to investigate secondary extraction of oil from mature oil wells.<sup>83</sup>

With respect to Argentina's modest iron ore industry, the Chinese firm, Ling Cheng, was awarded a contract in mid-2004 to reactivate a mineral field in Patagonia. The award is strategically significant insofar as the field represents the only proven iron deposits in Argentina.<sup>84</sup>

As in Brazil, China's approach to investment in Argentina has emphasized development of the nation's transport infrastructure, as a compliment to investments in extractive industries. In Argentina, reflecting both the Chinese interest in extracting Argentine iron ore and the difficulties of transporting materials over the Andes mountains via the existing infrastructure, Chinese interest has focused on the development of the Argentine railway system.<sup>85</sup>

Perhaps one of the most significant potential developments in the China-Argentina relationship comes in the area of nuclear power. China is currently exploring possible collaboration with Argentina on the development of a new fourth-generation nuclear reactor. Initial design work on the mid-size reactor has been done by the Argentine National Atomic Energy Commission (CONEA), in partnership with the firm, INVAP, as part of the Argentine Center for Nuclear Reactors project (CAREM). CAREM is currently exploring Chinese funding and collaboration on the construction of a 27 kilowatt prototype reactor, as the first step in the construction of a 300 megawatt design that could meet the power needs of small and mid-sized economies such as those found in Latin America.<sup>86</sup>

In the area of space cooperation, China helped Argentina to develop and field its first surveillance satellite, SAC-C.<sup>87</sup> Although Chinese support to Argentina in this area does not appear to be at the same level as its space cooperation with Brazil, the relationship

remains strategically significant because of its technology transfer implications, and because of potential future Chinese access to Argentine space facilities.

## **Colombia.**

Chinese engagement with Colombia has been limited, reflecting among other factors, the strong security and aid ties between Colombia and the United States. Indeed, it was significant that while President Hu Jintao visited Chile, Brazil, Argentina, and Cuba in conjunction with the APEC summit, the only stop of U.S. President George W. Bush in the region was a visit to his colleague, Alvaro Uribe, in Colombia.

Although Chinese trade with Colombia is small, it is both expanding and touches upon strategically important industries. In terms of volume, Colombia-China bilateral trade grew by 60 percent over 2003.<sup>88</sup>

One of the most strategically significant emerging relationships between Colombia and China involves petroleum products. Although China does not currently have a publicly acknowledged role in the deal, Colombia and Venezuela are currently engaged in engineering-level talks concerning the construction of a series of oil and gas pipelines that ultimately would allow Colombia to export significant quantities of these products to China via its Pacific ports.

With respect to oil, the Colombian oil firm, Ecopetrol, and the Venezuelan national oil company, PDVSA, began studies in 2002 on the construction of a 1,100-1,300 km-long petroleum pipeline to carry Venezuelan oil from the Maracaibo region across Columbia to the Choco region of Colombia, and potentially to the Pacific port of Tribugal.<sup>89</sup> The pipeline would thus facilitate the export of oil to the Western United States and Asian markets, including China.<sup>90</sup> Commitment to the pipeline was a key element of recent summits between Chávez and Uribe, including meetings on July 14 and September 9, 2004,<sup>91</sup> although recent statements by both governments have raised some doubts about the future of the deal. In conjunction with the pipeline, Colombia has discussed the construction of a future oil port on its Pacific Coast with the explicit purpose of refining and

exporting petroleum products to China and other Asian markets.<sup>92</sup> Such a pipeline would not only provide an outlet for Colombian oil sales to China, but would also significantly increase the viability of Venezuelan oil sales to China, given the inability of modern supertankers loading on Venezuela's Atlantic coast to pass through the Panama Canal.

As a compliment to an oil pipeline, Venezuela and Colombia are also planning construction of a 177 km-long natural gas pipeline from the Guarija region of Colombia to the Lake Maracaibo area (Venezuela's main oil producing region). Plans for the pipeline were included in a deal signed in the July 2004 summit between Venezuelan President Chávez and Colombian President Alvaro Uribe. When completed, the pipeline will have a capacity to transport 150-200 million cubic feet of gas per day,<sup>93</sup> and may eventually extend across Colombia to the Pacific Ocean at Puerto Ballena. As envisioned, the gas pipeline would initially export Colombian natural gas to Venezuela, but the flow would eventually be reversed as Colombian natural gas production declines and new Venezuelan natural gas resources are developed and come on line.

### **Peru/Ecuador.**

In both Peru and Ecuador, as in other parts of Latin America, trade with China is increasing. In Ecuador, bilateral commerce with China doubled over the past 2 years, from \$128.3 million in 2001 to \$267.7 million in 2003.<sup>94</sup> With respect to Peru, exports to China increased by 190 percent, while imports from China during the same period increased by 200 percent.<sup>95</sup> Following the November 2004 APEC summit, for example, Chinese Vice-President Zeng Quinghong met with Peruvian Foreign Minister Rodriguez Cuadros to sign a number of accords committing the two nations to closer economic ties, a move which Peru hopes will increase its volume of trade with China. Zeng Quinghong subsequently traveled to Peru in January 2005, where he signed a series of eight cooperation accords, including a "partnership of all-around cooperation."<sup>96</sup>

Both Peru and Ecuador are of strategic importance to China, not only for the strategic resources that each country offers, but also

because each possess Pacific ports which may play a role in shipping goods to China from other points of origin in Latin America. It is the role of these countries as potential transshipment points that makes the powerful indigenous movements in each country a particularly important strategic consideration. On the one hand, these indigenous movements could help bring pressure to bear in support of Chinese interests; China has a traditional link to such indigenous movements, and has long broadcast radio programming in Quecha. On the other hand, such movements could also play a role in destabilizing their respective countries or promulgating anti-globalist, isolationist ideologies which would deny China access to the region's resources.

Resources of particular interest to China in Peru and Ecuador itself include petroleum products, cement and iron. Chinese interest in the petroleum sector involves development of oil fields by Chinese firms, and an interest in the expansion of the pipeline infrastructure in those countries that would ultimately carry that oil from developed fields to Pacific ports.

In December 2003, the Argentine firm, Pluspetrol, sold 45 percent of its stake in Pluspetrol Norte to China National Oil and Gas Exploration and Development Corporation (CNODC), an affiliate of CNPC. Pluspetrol Norte, which operates fields along Peru's northern border with Ecuador, is the principal petroleum producer in Peru. The acquisition adds to the oil fields operated by CNPC subsidiary, Sapet, on the northern Pacific coast of Peru,<sup>97</sup> and positions CNPC to participate in significant planned Pluspetrol oil ventures in Ecuador, Venezuela, and Colombia.<sup>98</sup> Similarly, in November 2003, the Ecuadorian government released new solicitations for bids on four major oil fields: Auca, Shushufindi, Culebra-Yulebra, and Lago Agrio. Award of the contract to one of the two Chinese companies would significantly contribute to China's access to oil, given Ecuador's production of 500,000 barrels of oil per day tied to that nation's Pacific ports.<sup>99</sup>

Despite the current concentration of Chinese interest in the petroleum sector, however, the Chinese are also pursuing expanded ties in other domains, including cement and iron. Peru recently acknowledged China's status as a "market economy," impairing the ability of the nation to bring dumping charges against China in the

World Trade Organization, in exchange for China's agreement to approve Peru as a tourist destination for Chinese citizens—a move that Peru hopes will promote its tourism and other local industries in the coming years.<sup>100</sup>

## **Bolivia.**

Bolivia is of strategic significance to China as a potential exporter of natural gas and strategic minerals, although these exports will depend on continuing Bolivian access to Peruvian or Chilean Pacific ports. Over the long term, the ability of Bolivia to export natural gas to China will depend on that nation's resolution of its 1996 hydrocarbons law, which is currently under revision in the Bolivian legislature, and which will ultimately condition the extent to which foreign firms participate in the development of this resource.

China's current trade and investment presence in Bolivia is modest. The most significant current initiative involves Chinese assistance to Bolivia in constructing a urea plant. In September 2004, the Chinese Lutianhua Group and the China Chengda Chemical Engineering Corporation announced a collaborative venture with the Bolivian LisaTum Par Group to build the plant in Bolivia. Under the agreement, 90 percent of the project will be developed by the two Chinese firms. The plant is foreseen to have an annual production capacity of 180,000 tons of synthetic ammonia and 300,000 tons of urea.<sup>101</sup>

## **Panama.**

The primary strategic importance of Panama to China stems from the role of the Panama Canal and the complimentary infrastructure which facilitates the transfer of goods from the Atlantic to the Pacific Ocean. As a compliment to moving goods overland to Pacific ports, the canal plays a critical role in making economically viable the shipment of goods from Latin American economic ports.

The most significant current initiative in Panama does not involve the canal itself, but a 20-mile long, multipurpose pipeline that was constructed 23 years ago,<sup>102</sup> and follows a route parallel to

the Canal. A project currently being contemplated with the support of Venezuela would increase the capacity of the pipeline to transfer oil from the Atlantic to the Pacific sides of the country from 100,000 barrels of oil per day to 800,000 barrels per day.<sup>103</sup> Such an expansion would facilitate and lower the cost of shipping oil from Venezuela to China by allowing the product to be loaded in Atlantic ports and transferred to the Pacific. As such, it would provide an alternative or compliment to the construction of a pipeline across Colombia to carry Venezuelan oil from the Maracaibo region to Pacific ports.

No discussion of Chinese involvement in Panama would be complete without a discussion of its strategically important property holdings at Cristobal, Balboa, and Rodman Point. The Chinese shipping company, Hutchison-Whampoa, affiliated with the People's Liberation Army, has 50-year leases on facilities at Cristobal and Balboa, and has recently been given an option on developing the former U.S. naval base at Rodman Point. The combination of the three holdings gives China visibility and some limited potential control over maritime traffic at both ends of the Panama Canal.<sup>104</sup> Although the canal cannot be used for the transit of large aircraft carriers, supertankers, or vessels over 100,000 tons, some 670,000 barrels of oil go through the canal each day, making it a critical maritime chokepoint in the Western hemisphere.<sup>105</sup>

## **Cuba.**

Whether or not Chinese interest in Cuba is driven by the shared ideological roots of the two political systems, Chinese trade and investment in Cuba is growing significantly. Over the past year, bilateral Chinese-Cuban trade expanded 36 percent to \$401 million.<sup>106</sup>

Following the November 2004 APEC conference and associated state visits to Brazil, Argentina, and Chile, President Hu Jintao also visited Cuba, where he signed 16 bilateral commercial accords, committing to more than \$500 million in Chinese investment in Cuba.<sup>107</sup> As part of the state visit, the two countries also conducted the first annual "Forum of Chinese-Cuban Investment," with 400 businessmen from both nations in attendance.<sup>108</sup>



## Mexico.

Chinese trade with Mexico is significant and has been expanding at the same rapid rate as with other parts of Latin America. Between 1998 and 2003, Mexican exports to China increased by 337 percent, while corresponding imports from China increased by 476 percent.<sup>109</sup> In 2004, bilateral trade between China and Mexico was more than \$7 billion, representing a 44 percent increase over 2003.<sup>110</sup> By contrast to other Latin American countries, however, Mexico has a trade deficit with China that is significant and growing. Mexican imports from China in 2003 were \$9,298 million, compared to exports of \$463 million.<sup>111</sup> Indeed, if the Mexican trade deficit with China was only half of this level, Latin America as a whole would register a positive balance of trade with the Asian giant.

A study by BBVA suggests that, by contrast to other nations in Latin America, the structure of Mexican exports resemble that of China.<sup>112</sup> Thus while the economies of many other nations in Latin America may be regarded as complimenting those of China, Mexico is more of a direct competitor—particularly in labor-intensive, low-value added manufacturing sectors. Perhaps reflecting the less complimentary nature of the economic relationship between the two countries, Chinese investment in Mexico has been relatively modest relative to other Latin American countries—\$200 million in 2004, for example.

Despite the current nature of the relationship in the short term, Mexico offers a number of attractions for China, including significant quantities of oil and other strategic materials, and a number of commercially developed Pacific ports. On the other hand, Mexico currently uses almost all of the oil that it produces, leaving little available for export. Moreover, Mexico's proximity to the United States may make China wary of too aggressively pursuing investment there in the near term. Nonetheless, China has indicated interest in pursuing a relationship with Mexico in a number of important arenas, as reflected by inclusion of Mexico as the first stop in a high-profile five-nation Latin American and Caribbean tour made by Chinese Vice-President Zeng Qinghong in January-February 2005.<sup>113</sup>

## **Other Strategically Significant Trade and Investment Initiatives.**

The concentration of Chinese trade and investment growth in the region has been in South America, despite significant petroleum and mineral resources in Latin American countries such as Mexico. Nonetheless, the Chinese presence in Central America and the Caribbean has been increasing as well. The expansion of trade and investment ties was the central theme, for example, of the China-Caribbean Economy and Trade Cooperation Forum, held on February 2, 2005 in Kingston, Jamaica.<sup>114</sup> As part of the same trip, Chinese Vice-President Zeng Qinghong signed a series of agreements with Mexican President Vincente Fox, including the establishment of a team to promote trade and investment between the two countries.<sup>115</sup> A recent report by the Spanish investment firm, La Caixa, cited excessive dependence on Chinese investment as one of the principal risks governing the economic growth of the region.<sup>116</sup> Even in Guatemala, which historically has not had significant trade relationships with Asia, some 13 percent of the nation's sugar exports in 2004 will go to China.<sup>117</sup>

Chinese engagement with Latin America directly or indirectly requires reliance on the banking sector. As part of a vertically integrated strategy, presence in the banking sector is important for the receipt of payment, the transfer of funds, the granting of credit, and the conduct of commercial operations in general with a degree of security and confidentiality. Although only a modest step in this direction, on September 1, 2004, the Santander Group, a major multinational investment holding company in Latin America, signed an accord with the Bank of China to provide an array of common financial products and bank services to its clients.<sup>118</sup> The agreement represents a significant step in the fledgling penetration of the region by Chinese financial entities, as a compliment to growing Chinese investment in the region.

## **INCREASING CHINESE NONECONOMIC ENGAGEMENT WITH LATIN AMERICA**

China's engagement with Latin America has not been limited to trade and investment, although Chinese economic needs arguably

have been key drivers of the expanded relationship. In addition to trade and investment, China is stepping up its role in the region in a number of other ways, from participation in regional peacekeeping forces to expanded military ties.

### **An Expanded Voice and Presence in Regional Diplomacy.**

In 2004, China sent a 125-man riot police detachment as part of the United Nations (UN) peacekeeping force in Haiti.<sup>119</sup> Similarly, because Haiti is one of a small number of nations concentrated in Latin America which still grant diplomatic recognition to Taiwan, many U.S. analysts view China's presence in the peacekeeping force as a part of its long-term strategy to convince these Latin American nations to withdraw their recognition of Taiwan. In this regard, it is significant that recent state visits by Chinese Vice-President Zeng Qinghong to Mexico, Peru, Venezuela, Trinidad and Tobago, and Jamaica each featured high-profile declarations by the leaders of those Latin American countries reiterating their support for a "One-China" policy.<sup>120</sup>

Chinese participation in the UN peacekeeping force in Haiti may also be interpreted as part of a more long-term strategy through which China is pursuing a greater diplomatic presence in the region, and an expanded voice in its politics. In March 2004, for example, China's National People's Congress signed a cooperation agreement with the multinational Latin American Parliament, and became an observer of the body. Senior Chinese legislators subsequently traveled to the Parliament's home in Brasilia in January 2005 to meet with its president and "deepen political, economic and cultural cooperation between China and Latin American countries."<sup>121</sup> Similarly, during his visit to Latin America in January-February 2005, Chinese Vice-President Zeng Qinghong signed an agreement with the collective body of foreign ministers from Andean Community Countries (Ancom) promoting cooperation between China and Ancom, building on an agreement signed in 2000 to establish a "Political Consultation and Cooperation Mechanism" between the two sides.<sup>122</sup> Although neither Ancom nor the Latin American Parliament has significant power as a decisionmaking body, such initiatives reflect important steps along

the path that China began in the 1990s, when it was granted observer status in the Organization of American States (OAS), affording it a window on some of the critical diplomatic processes ongoing in the region, as well as an entrée into select OAS multinational activities.

The Chinese also may be working to strengthen ties between the Communist Party and various radical, populist, or left-of-center movements in Latin America. In Venezuela, for example, the Communist Party of China (CPC) announced on December 20, 2004, that it was working to develop good party-to-party relations with the official Movement of the 5th Republic (MVR) party of Venezuela. The announcement was made during a meeting between delegates of the two parties in conjunction with the visit of President Chávez to Beijing.<sup>123</sup> It is not yet clear whether the Chinese intend to use a similar approach in dealing with other socialist governments in the region, or radical parties such as the Movement Toward Socialism (MAS) in Bolivia, but given the current movement of Latin America toward the political left, such a strategy could significantly increase Chinese influence and involvement in the politics of the region.

### **An Expanded Chinese Military Role in Latin America.**

In addition to expanded diplomatic presence in the region and expanded party-to-party relations, the Chinese also appear to be cautiously expanding their military presence and military ties. In the arena of direct military presence, for example, Cuba may have permitted Chinese operations at the former Soviet listening post at Lourdes, allowing China to collect signals intelligence on U.S. military satellite signals and other U.S. telecommunications.<sup>124</sup>

With respect to military-to-military ties, China has cautiously strengthened its relationships with a number of countries in recent years, including Venezuela, Ecuador, Bolivia, and Chile. In Venezuela, the joint intention to strengthen military to military ties was one of the elements of cooperation announced by the two nations following the 2004 trip by President Chávez to China. Strengthened Sino-Venezuelan military ties build on a modest foundation, including China's previous sale of military transport aircraft and associated training to Venezuela.<sup>125</sup> With respect to Ecuador, the two

nations indicated a desire to strengthen their military ties during a visit of the Ecuadorian Joint Chief of Staff Victor Rosero with the Chinese People's Liberation Army Chief of the General Staff Liang Guanglie.<sup>126</sup> With respect to Bolivia, Bolivian Defense Minister Gonzalo Arredondo visited China in November 2004 to meet with Chinese Defense Minister Cao Gangchuan. In the meeting, the ministers acknowledged an increase in bilateral army-to-army exchanges and visits and other forms of cooperation.<sup>127</sup> With respect to Chile, the two nations have a number of military-to-military ties, although balanced by similar ties to the United States, South Korea, Australia, and Japan. Sino-Chilean military-to-military ties include attendance by Chilean officers at the National Defense University of China (since 1997), Chinese representation at the Chilean War College (since 1997), visits by the Chinese naval commander to Chile in 2002 and by the Chilean naval commander to China in 2003, and multiple trips by the Chilean training ship, *Esmeralda*, to Chinese ports.<sup>128</sup>

## **IMPLICATIONS FOR THE REGION AND U.S. NATIONAL SECURITY**

It is not necessary to postulate Chinese troops and bases in Latin America in order to conclude that an expanded Chinese presence in the region has enormous consequences for U.S. national security, and as such, warrants serious examination. During the past century, the U.S. military was deeply engaged in the politics of Asia, consistent with the view that such global engagement made our own hemisphere more secure. In the present century, by contrast, the United States repeatedly will be forced to choose how much Chinese engagement in our own hemisphere we can afford to ignore on the grounds that it does not constitute an "immediate threat."

In general, the Chinese presence in Latin America reflects significant erosion in the relative power and geopolitical position of the United States, and the advent of a new century in which the United States is preoccupied about Chinese adventurism in the Americas, balancing out traditional Chinese concerns about the U.S. presence in Asia. The dynamics and potential consequences of these trends

range from economic damage to the United States to the potential for significant crises which, if mismanaged, could bring about direct conflict between the United States and China in this hemisphere.

Some of the most immediate consequences of the current Chinese engagement in Latin America involve the economic security of the United States and the livelihood of U.S. citizens. To the extent that Latin American countries sign free trade agreements both with China and with the United States, American markets will become increasingly open to duty free Chinese products—something that China has never been able to obtain through direct negotiations with the United States.<sup>129</sup> The free trade accord that Chile has negotiated with the United States, for example, in combination with the one that Chile is currently negotiating with China, raises the possibility that Chile (or other Latin American nations pursuing similar agreements) could be used as a “pass through,” country, by which Chinese goods were sold without tariffs to U.S. markets. Although the U.S.-led initiative for a Free Trade Area of the Americas (FTAA) is currently experiencing difficulties, its achievement would compound U.S. vulnerability to this Chinese competition.

### **Chinese Interests in Regional Stability.**

China’s interest in securing access to the resources of Latin America through trade and investment give it a vested interest in the stability of the region. On its face, such interest is counterintuitive; given China’s traditional alignment with anti-status quo third-world movements, constructing a secure supply chain requires governments that are stable enough to extract, process, transport, and export those goods that China requires to fuel its economic expansion. The vested Chinese interest in stable, export-oriented Latin American governments has the potential to create a number of policy contradictions or dilemmas. For example, China has a vested interest in leveraging and deepening its relationship with the populist Chávez regime in Venezuela both because of Chávez’s ideological sympathy with China, and because of Venezuelan petroleum products and other resources. But China also has an interest in access to the resources of Bolivia, Peru, and Ecuador. Thus attempts by the

Chávez regime to spread its Bolivarian revolution to these countries by promoting radical indigenous movements ultimately could cause China to begin to see Chávez as a net liability to its interests in the region.

With the exception of pointedly anti-U.S. regimes such as Venezuela and Cuba, Chinese interests in access to the region for trade may ironically compliment U.S. interests and create short-term opportunities for the United States and China to work together to strengthen government structures and promote regional stability and political institutionalization. This could, for example, include strengthening of government institutions in Peru and Ecuador, both of which possess oil resources and Pacific ports.<sup>130</sup> In both countries, the political leadership is politically marginalized, including a strong challenge from a powerful indigenous faction in Ecuador.<sup>131</sup> Similarly, China arguably has a vested interest in the emergence of a stable and politically moderate Bolivia that could resolve its territorial disputes with Chile and Peru, and increase exports of its natural gas resources through Pacific ports in one of those two countries.<sup>132</sup>

Chinese interest in promoting regional stability may ultimately extend to Colombia as well. Although Colombia is closely tied to the United States through the aid that it receives to fight insurgent and paramilitary groups and narcotics, it is willing to construct a pipeline and a refinery to facilitate the export of the region's oil to the Pacific for potential sale to China. To the extent that the Guarija-Maracaibo and Maracaibo-Puerto de Tribugal pipelines become reality, for example, China could develop a vested interest in working with the Colombians to prevent violence against them—just as the United States provided security assistance to help the Colombians protect the Caño-Limon-Covenas pipeline in Arauca state.

While China may actively support stability and market economies in the countries of the region, such support does not imply that China will abandon its traditional role as an ally of indigenous, leftist, or anti-globalist movements in the region, including terrorists or movements seeking to subvert regional governments. Such ties will remain valuable to China as a means of channeling the efforts of such groups away from actions that would harm Chinese investment interests. At the same time, such ties could also be used to bring

pressure on regional governments through selective action or the threat thereof, as part of a larger strategy of negotiation between China and those governments.

### **The Key Role of Latin American Countries with Pacific Ports.**

As foreshadowed in the previous section, the importance of Pacific ports for trade flows with Latin America is likely to make China particularly focused on its relationships with the countries that have them. Because Pacific ports are a key enabler for the timely and economically viable flow of goods between the two continents, China is likely to be particularly interested in the politics, stability, infrastructure, and business environment of those countries which have such ports.

As a nation with both strategic minerals of interest and a number of high-volume commercialized Pacific ports, Chile, in particular, is likely to emerge as a key player in China's engagement with Latin America. Total Chilean exports to China in 2003 were \$1.85 billion, representing more than a quarter of all Latin American exports to that country.<sup>133</sup> These exports included approximately \$1 billion in annual exports of the key strategic metal, copper. Chile's dominance of South America's Pacific coastline, in combination with its established trade relationships with China and its multiple commercial deepwater ports, make that nation the logical gateway to the sea for commerce with much of the rest of Latin America. As the Chilean newspaper, *El Mercurio*, put it, Chile is "a bridge to the huge world of the Asia-Pacific."<sup>134</sup>

With the meeting between Chilean President Richard Lagos and Chinese President Hu Jintao at the APEC summit in November 2004, the two countries officially began negotiation of a free trade pact which would position the nation even more clearly as the emerging commercial hub for Latin American trade with China.<sup>135</sup> Chile arguably would welcome expanded trade ties with Asia insofar as Asia would counterbalance the United States as an export market for the Southern Core Common Market Customs Union (MERCOSUR), thus increasing the independence of the South American trade block and increasing Chile's profile as its dominant player and key trade



conduit. Leading Chilean businessmen such as Sebastián Piñera of LAN speak openly of China as a “third major partner, united through the instrumentality of the APEC forum.”<sup>136</sup> On the other hand, China probably has fewer direct means to intervene in Chilean politics than it has to shape other nations in Latin America. Chile is Latin America’s strongest economy and most stable political system, and lacks a significant indigenous movement of leftist radicals that could be used to foment instability. As manifested in the Chile-Bolivia border dispute, however, Chile’s need to import energy is its Achilles’ heel, and has been used by both Bolivia and Argentina to exert diplomatic leverage. China’s future strategy in Chile consequently might be shaped by helping Chile to attain access to foreign oil and natural gas or reciprocally, by leveraging states such as a radicalized Bolivia to pressure the nation.

In addition to Chile, China’s interest in nations with Pacific ports is likely to focus its attention on the politics of Ecuador, Peru, and Colombia, although such a level of interest may not be apparent at the present time. China thus may have particular interest in Colombia’s success against sources of destabilization such as the Fuerzas Armadas Revolucionarias de Colombia (FARC), the Ejército Liberación Nacional (ELN), and sundry guerrilla and narcotrafficking groups. Similarly, China may have particular interest in channeling the rise of indigenous groups in Ecuador and Peru to preclude them from impairing that nation’s commerce.

### **Adverse Economic and Political Impacts of Chinese Engagement for the Region.**

As discussed previously, China has an interest in the economic stability of the region; however, over the long term, the nature of its engagement there is likely to affect the economic structure in such a way that it will generate significant economic displacement and foment political unrest in the constituent states. Although important differences exist between the economic structures of China and Latin America, China fundamentally competes in the same market for low-end manufactured goods as does Latin America.<sup>137</sup> Chinese labor is currently much cheaper than that in most of Latin America.

One recent study by the U.S. International Trade Commission, for example, found that the productivity of labor in Caribbean Basin countries was only 50 percent of the productivity of Chinese labor.<sup>138</sup> Another found that Chinese labor was, on average, one-quarter the price of that of Latin America.<sup>139</sup> In combination with its reduction of shipping costs through the use of economies of scale and relatively greater port efficiency,<sup>140</sup> China is effectively able to underprice factories operating in Latin America. Largely as a result of such factors, more than 300 companies moved production from México to China over the past year, contributing to that nation's loss of more than 200,000 employees in the Maquiladora sector.<sup>141</sup>

Aggravating the ability of Chinese manufacturing to underprice its Latin American counterparts, a number of Latin American nations are moving toward lowered trade barriers with China. In conjunction with the APEC summit in November 2004, for example, Brazil, Argentina, Chile, and Peru officially recognized China's status as a "Market Economy,"<sup>142</sup> hampering their ability to bring antidumping charges against Chinese companies and otherwise protect local markets against an influx of Chinese goods. Similarly, in the textile industry, quotas are slated to end January 1, 2005, and experts are predicting an invasion of Chinese textiles into Latin America.<sup>143</sup>

If Latin America continues to lower protectionist barriers in the face of China's ability to underprice Latin America in manufacturing, it is likely that Chinese competition will damage the Latin American manufacturing sector badly, even while Latin American extractive industries and foodstuffs experience a boom to support the Chinese market. In such a scenario, trade with China may tend to shift the economic structure of Latin America from manufacturing toward extractive industries and basic foodstuffs.<sup>144</sup> The loss of jobs due to this economic shift is likely to be particularly acute insofar as Chinese competition is greatest in those sectors which are most labor intensive. The textile industry is an often-cited example where, according to one source, with the liberalization of trade barriers, China may capture up to 85 percent of global manufacturing, putting at risk some 226,000 Latin American Maquiladora workers currently in this sector.<sup>145</sup>

The adverse impact of competition with China on local economies is likely to generate a political backlash from the industries and trade

associations who stand the most to lose. Ecuador, for example, has been considering the passage of new legislation which would make it significantly more difficult for Chinese investors to enter the country and compete against local businesses.<sup>146</sup> In short, the economic displacement that Chinese engagement with Latin America will cause is likely to fuel a wave of protectionist or populist politics which will threaten what will be, by then, significant sunk investments and established trade relationships.

The political response in Latin America may be exacerbated further by the nature of Chinese investment. Unlike many Western companies in the 20th century which made large direct investments in Latin American factories and infrastructure projects, Latin American experts fear that the promised Chinese investment is likely to come in the form of low interest rate loans tied to the use of Chinese firms to do the work. In the words of a former senior Argentine official, "We would remain indebted for decades and decades to pay back loans tied to direct awards to foreign corporations chosen by mere government functionaries . . . when other businesses could have done the same job on better terms."<sup>147</sup>

Ironically, as China increasingly invests in and purchases strategic materials from Latin America, while simultaneously using the region as an export market for its manufactured goods, the nation may create a neoimperialistic dynamic in the hemisphere, albeit one with the consequences displaced onto the United States. Argentina, for example, increasingly is looking to China to help finance its foreign debt payments and secure independence from the IMF, while simultaneously passing "antidumping laws" and erecting protectionist barriers against Chinese merchandise.<sup>148</sup> In previous decades, dependence on Western capital was a key vehicle in forcing Latin American nations to accept neoliberal economic policies and free trade, limiting the degree to which they could buy social peace with state institutions and government largesse. As China's position as a key investor and export market for Latin America grows, the region similarly will become increasingly hard pressed to sustain policies that discriminate against Chinese imports. Through this self-reinforcing cycle, greater trade with China may thus erode mechanisms of institutional resistance, accelerating

and deepening that trade relationship. To the degree that such a deepening displaces Latin American manufacturing industries with less labor intensive extractive industries, however, increasing trade with China could reduce the number of jobs in the region and deepen poverty. To the extent that extractive industries traditionally involve major concessionary arrangements with governments and major capital investments, by fueling the growth of such industry in Latin America, socialist China ironically could deepen the corruption and class disparities that traditionally have plagued the region. In short, it is possible that heightened Chinese trade will produce a region with more poverty, corruption, crime, political chaos, and indigenous populism. Furthermore, the direct effect of these job losses, and the indirect effects of the political chaos that it could spawn, will probably be increased migration within countries, and from the South to the United States and other destinations.

### **Expanded Presence of Chinese Nationals in the Region.**

As trade ties expand in the region, the physical presence of Chinese nationals is also likely to expand, particularly in areas which compound other challenges that the United States faces in the region. In conjunction with the APEC summit, China added Argentina and Brazil to its list of approved tourist destinations.<sup>149</sup> Mexico and Peru subsequently were given “Approved Destination Status” (ADS) in January 2005.<sup>150</sup> This change is particularly significant insofar as it is estimated that 28.5 million trips abroad were made by Chinese citizens in 2004,<sup>151</sup> and it is estimated that within 15 years, some 100 million Chinese tourists will be traveling throughout the world.<sup>152</sup> To the extent that China adds specific Latin American countries to its list of approved travel destinations, the region could be impacted significantly by this private and business tourism.

In addition to tourism, the number of Chinese living and doing business in Latin America also is expanding rapidly, albeit from a low level. For example, 130,000 Chinese nationals currently live in Venezuela.<sup>153</sup> In the wake of increasing violence against Chinese nationals in Venezuela in recent years, including election-related violence against Chinese supermarkets in the state of Carobobo, China has initiated a system of monitoring and protection for its citizens

living in that country.<sup>154</sup> Although the Chinese population in South America is currently miniscule, the rate of increase is significant. Ecuador, for example, currently has only 5,004 Chinese nationals registered in the country under permanent or semi-permanent visas, yet the number entering the country jumped by more than a third from the level of the prior year.<sup>155</sup> The pattern and implications of Chinese immigration are also a matter of concern. For example, 15,000 Chinese currently reside in Ciudad del Este, Paraguay,<sup>156</sup> part of the “Triple Frontier” region that has been an area of particular concern for its potential ties to international terrorist networks.

With increased human contacts, it is likely that Chinese and Latin American criminal and terrorist organizations will interact in ways difficult to anticipate, and often outside the knowledge or control of the Chinese state.<sup>157</sup> Such relationships might include strengthened ties between Chinese triads, such as the Fu Chin, and Latin American organized crime<sup>158</sup>—including trafficking in both drugs and human beings—producing new patterns of collaboration and competition. Logical areas where networks may either cross-over or fight include the interaction between the Colombian kidnapping industry and Asian personnel trafficking, as well as the competing heroin industries of the Andes and the Golden Triangle. It is also unclear whether the infusion of Chinese capital will help to rationalize, or will only exacerbate, the corruption, particularism, and lack of transparency evident in some Latin American financial systems.

As China becomes increasingly involved in the region, it is also likely that such presence will create new perceived national interests to be protected. It is not clear, for example, how China would react to escalating kidnapping of its business and government personnel in Colombia or to a failed state of the future such as Bolivia, where it is trying to operate strategically important petroleum and mineral extraction concessions. Reaction by the Chinese state to increasing violence against its nationals in Venezuela during recent years, for example, is a sign that the dynamics stemming from the heightened profile of the Chinese population and interests in Latin America are already beginning. Similarly, it is not clear how China will react to guerilla violence that cuts important oil flows, or radical political change resulting in the nationalization and seizure of assets owned in part by the Chinese state or affiliated business interests.

Over the coming years, it is also likely that specific events within China and on the world stage will generate imperatives that may cause China to change its approach toward the region, or rapidly deepen its level of interest in difficult to anticipate ways. China is, for example, currently experiencing its worst drought since 1951. The lack of water is anticipated to impact domestic food production severely, reducing the nation's harvest by 510,000 metric tons this year alone.<sup>159</sup> Furthermore, the lower water table has begun to impair the generation of hydroelectric power.<sup>160</sup> The consequence of both these phenomena is likely to be a sharp rise in China's imports of foodstuffs and fossil fuels for power generation, beyond the expansion predicted from economic growth alone, and with it, potentially heightened interest in Latin American sources of supply.

Ultimately, increasing Chinese involvement in the hemisphere is likely to give rise to a number of strategic dilemmas for the United States. Given the position of power that the United States currently has in the region, such dilemmas as outlined above easily may be circumvented as they develop, yet may be much graver if they manifest themselves as a crisis. What is required is identification in advance of what some of the futures might be; what concrete steps the United States can take to position itself in response to these developments; and what the advantages, disadvantages, and risks are of a particular course of action.

## CONCLUSION

Chinese pursuit of its national interests in Latin America may unfold in a number of ways, depending on assumptions concerning key factors such as actual levels of Chinese economic growth and industrialization during the coming decades. The particular course taken by Latin America's current array of indigenous movements, socialist governments, and radical populist leaders, as well as the way in which they interact, may create particular crises in particular countries at particular times. Although certain scenarios are more likely or more grave than others, decisionmakers responsible for managing U.S. policy in Latin America need to map out the principal

scenarios and begin thinking through the merits and consequences of alternative responses, so as to avoid falling victim to strategic surprise when such events occur.

In whatever manner the topic is studied, the long-term trends driving an increased Chinese presence in Latin America are not likely to abate. The U.S. position in Latin America is currently strong, and the Chinese trade and investment presence is relatively limited. Yet, an examination of China's strategic aims in the region and the potential for increased Chinese influence in the Western Hemisphere remains an important task.

## ENDNOTES

1. As a caveat, the investment commitments are "letters of intent," representing only very preliminary commitments. "Magic, or Realism?" *The Economist*, January 1, 2005, p. 25.

2. "China-Latin America Ties Enter 'Best Period of History': Experts," *www.chinaview.cn*, December 27 2004.

3. By contrast to China in the 1970s and 1980s, industrialization and economic modernization, rather than population growth, is the key to increasing Chinese resource demands. China's current population growth rate is only .73 percent and falling—although even this modest rate will add more than 131 million people to the nation between 2004 and 2025. This is calculated based on the "Medium Growth Variant" scenario, in which population growth rate in China falls from .63 percent per year in 2005 to .22 percent per year in 2025. United Nations Population Division, "World Population Prospects: The 2002 Revision. World Population Database," United Nations, 2003.

4. Jorge Blázquez-Lidoy, Javier Rodríguez, and Javier Santiso, "Angel or Devil? Chinese Trade Impacts on Latin American Emerging Markets," unpublished paper, November 2004. See also Domingo Fontiveros, "Bonanza Petroleras BIS," *El Universal*, Caracas, October 3, 2004.

5. Katherine Bauerle Ewert, "China, la niña bonita del baile," *El Mercurio*, Santiago, November 14, 2004. See also "Efectos de un TLC con China," *El Mercurio*, Santiago, December 12, 2004.

6. Luz María Astorga, "Qué gana Chile con el APEC?" *El Mercurio*, Santiago, November 12, 2004.

7. Business Report, October 7, 2004, <http://www.busrep.co.za/index.php?fSectionId=&fArticleId=2210339>.

8. The most significant two Chinese growth corridors are currently the Pearl River Delta, centered on China's southern Guangdong province, and Shanghai and

the Yangtze River Delta. Exports from Guangdong, as an indicator of production, have doubled in the past 5 years, while those of the "greater Shanghai" region have almost quadrupled in the same period. "String of Pearls," *The Economist*, November 20, 2004, p. 44.

9. Some 800 million Chinese currently are counted among the economically marginalized "peasantry," indicating that a modest but widespread improvement in their lifestyles could represent a dramatic expansion in Chinese economic growth. See Ewert. Along these lines, it is of interest to note that in the first half of 2003, car sales in China grew by 82 percent relative to their level at the same period in 2002, suggesting that changes in the lifestyles of Chinese will continue to create structural increases in demand for energy. See "La energía y el aumento de demanda," *La Nación Line*, Buenos Aires, December 7, 2004.

10. Luis Xavier Grisanti, "China en el cono sur," *El Universal.com*, Caracas, November 25, 2004. See also China's Oil Imports to Increase," *Big News Network.com*, November 24, 2004.

11. In the words of Vice President of the Canadian Asia Pacific Foundation Yuen Pau Woo, explaining Chinese investment initiatives announced in conjunction with the November 2004 APEC summit, "China has come to Latin America to assure its supply of energy and gain international recognition." Fernando Gualdoni, "China 'conquista' América Latina," *El País*, Madrid, November 21, 2004, p. 3.

12. "China Minmetals' Proposals for Noranda," FactSheet, Noranda Corporate Website, [www.noranda.com](http://www.noranda.com).

13. Javier Santiso, "Angel or Devil? Chinese Impact on Latin America," Unpublished presentation for the Organisation for Economic Cooperation and Development (OECD), Paris, January 21, 2005.

14. "An MBendi Profile: China--Mining: Iron Ore Mining--Overview," *MBendi*, September 30, 2004, Internet document, <http://www.mbendi.co.za/indy/ning/iron/as/cj/p0005.htm>.

15. Internacional Energy Agency, *Monthly Oil Survey*, June 2004, p. 10. The figure actually underestimates the significance of Latin American production because it does not include oil produced for domestic consumption but does include oil products processed and re-exported by other countries.

16. "China's Nonferrous Wheel of Fortune," *Asia Times online*, *Atimes.com*, August 22, 2001.

17. This figure represents total Chilean exports of copper to China in 2000. See "China Challenges U.S. in Latin America," *Miami Herald*, Miami, April 15, 2001.

18. See Murray Scot Tanner, "Hu Jintao as China's Emerging National Security Leader," in *Civil-Military Change in China: Elites, Institutes, and Ideas After the 16th Party Congress*, Andrew Scobell and Larry Wortzel, eds, Carlisle Barracks, PA: U.S. Army War College Strategic Studies Institute, September 2004, p. 59.



19. "China avanza en asociaciones con Latinoamérica," *El Universal.com*, Caracas, December 3, 2004.
20. Luis Xavier Grisanti, "China en el cono sur," *El Universal.com*, Caracas, November 25, 2004.
21. Alejandro Rebossio, "Pekín invierte a ritmo de salsa," *El País*, Madrid, November 21, 2004, p. 8. See also "China reitera en Chile promesas de fuertes inversiones in América Latina," *El País*, Madrid, November 21, 2004, p. 1.
22. "China Invests \$37b Overseas," *China Daily*, February 8, 2005. See also "Half of China's Overseas Investment Falls in Latin America," *People's Daily Online*, January 7, 2005.
23. 2004 figures are based on data from the period January-November, as reported by the Chinese Ministry of Commerce, *ibid*. See also "Chinese Overseas Investment Hit 1.8 bln U.S. Dollars from Jan. to Nov.," *People's Daily Online*, January 6, 2005. Similarly, 2003 data show China investing more than \$1 billion in Latin America in 2003, representing over 77 percent of all of its investments outside Asia. "China refuerza lazos con América Latina," *El País*, Madrid, November 21, 2004, p. 1B.
24. This trade includes \$11.8 billion in exports to China and \$14.92 billion in imports from China. "China-Latin America Ties Enter 'Best Period of History': Experts," *China View*, [www.chinaview.cn](http://www.chinaview.cn), December 27, 2004. See also "China, Chile Launch FTA Talks," *China View*, [www.chinaview.cn](http://www.chinaview.cn), January 25, 2005.
25. "China-Latin America Ties Enter 'Best Period of History': Experts."
26. Marco Arauz Ortega, "China quiere estar más próxima a América Latina," *Elcomercio.com*, Quito, October 26, 2004. Similarly, 2001 statistics show that although exports to China were a meager \$5 billion, or 1.5 percent of the region's total exports, the figure reflected a jump of 74 percent between 1999-2000, and a 28 percent increase from 2000-2001. World Trade Organization, *International Trade Statistics 2002*, p. 56.
27. "BBVA: China es un 'ángel comercial' para América Latina," *El Universal.com*, Caracas, December 14, 2004.
28. *CBS News*, February 7, 2005.
29. Based on figures from January-November 2004, Brazil currently has the highest volume of trade with China, followed by Argentina, Mexico, and Chile. "Brazil is China's Main Regional Trade Partner," *Mercopress*, Montevideo, <http://www.mercopress.com>, January 10, 2005.
30. Yolanda Ojeda Reyes, "Ciudadanos Chinos Reciben Protección," *El Universal*, Caracas, November 11, 2004. See also "Chávez viajará a China el próximo 23 y 24 de diciembre," *El Universal.com*, Caracas, November 13, 2004.
31. "MPC: Comercio China-Venezuela alcanzará 2.500 millones dólares en 2007," *El Universal.com*, Caracas, December 24, 2004.

32. "Venezuelan President Wraps Up China Tour," *People's Daily Online*, December 27, 2004. See also "Chávez regresó a Venezuela y calificó de exitosa su gira a China," *El Universal.com*, Caracas, December 27, 2004.

33. "Venezuela, China Sign 19 Cooperation Accords," *People's Daily Online*, January 30, 2005.

34. "MPC: Comercio China-Venezuela alcanzará 2.500 millones dólares en 2007," *El Universal.com*, Caracas, December 24, 2004.

35. In the meeting, Chávez was widely quoted as declaring, "I have felt like a Maoist since my childhood." See "Detalles de la tercera visita al gigante asiático," *El Universal.com*, Caracas, December 26, 2004.

36. "Chávez ofrece Petróleo a China," *El Universal.com*, Caracas, December 24, 2004.

37. "BBVA: China es un 'ángel comercial' para América Latina."

38. "MPC: Comercio China-Venezuela alcanzará 2.500 millones dólares en 2007."

39. Since 1997, China National Petroleum Corporation has been developing Venezuelan oil fields in two blocks: the Intercampo block on Maracaibo Lake and the Caracoles block on the East Venezuela Basin. In 2001, Venezuela and China signed a memorandum of understanding facilitating cooperation and technology transfer in oil exploration and petrochemical engineering. The agreement included a 3-year arrangement for the supply of Venezuela crude to China, as well as an accord between the Instituto Nacional de Geología y Minería de Venezuela and the Office of Geological Investigations of China to develop advanced oil and minerals exploration technologies in China. See Maria Velez de Berliner, "Asia and Latin America: What the Future Holds," *Regional Focus*, May 22, 2003. See also Stanislav Lunev, "China's Growing Penetration of Latin America," *NewsMax.com*, May 17, 2001.

40. "Chávez ofrece petróleo a China," *El Universal.com*, Caracas, December 24, 2004. See also "China to Further Energy Cooperation with Venezuela: FM Spokesman," *People's Daily Online*, December 17 2004.

41. Fabiola Sanchez, "Chávez Predicts Energy Deals with China to Boost Trade to \$3 Billion," *Boston Globe*, Boston, December 28, 2004.

42. "Venezuela Agrees to Export Oil and Gas to China," *New York Times*, December 28, 2004.

43. Fabiola Sanchez, "Chávez Predicts Energy Délas with China to Boost Trade to \$3 billion," *Boston Globe*, Boston, December 28, 2004.

44. "Chávez concluyó 'Exitosa' gira a China antes de lo pautado," *El Universal.com*, Caracas, December 26, 2004.

45. Venezuela, EIA Country Analysis Brief, June 2004, <http://www.eia.doe.gov/emeu/cabs/venez.html>.

46. "Chávez ofrece petróleo a China," *El Universal.com*, Caracas, December 24, 2004. Key players include Petrochina and the PdVSA subsidiary, Bitor. See "Chinos y Coreanos dispuestos a pagar más por ormulsión," *El Universal.com*, October 5, 2004. Overall Chinese investment in Venezuela, principally in its oil sector, is estimated to be more than \$1 billion. Cynthia Watson, "A Warming Friendship: Part II of a Two Part Series on China, Taiwan, and Latin America," China Brief, The Jamestown Foundation, 2004.

47. "MPC: Comercio China-Venezuela alcanzará 2.500 millones dólares en 2007."

48. "Chávez concluyó 'Exitosa' gira a China antes de lo pautado," *El Universal.com*, Caracas, December 26, 2004.

49. Dutch assistance includes \$40 million in agricultural credits promised by China during the state visit of Hugo Chávez to the Asian country during the Christmas 2004 holiday. *Ibid*.

50. "MPC: Comercio China-Venezuela alcanzará 2.500 millones dólares en 2007."

51. *Ibid*. See also Sanchez.

52. "Delegación China visita Venezuela para negociar acuerdos," *El Universal.com*, Caracas, December 12, 2004. See also "MPC: Comercio China-Venezuela alcanzará 2.500 millones dólares en 2007."

53. "China, Chile launch FTA talks," *China View*, [www.chinaview.cn](http://www.chinaview.cn), January 25, 2005, See also "Brazil is China's Main Regional Trade Partner," *Mercopress*, Montevideo, January 10, 2004.

54. Efectos de un TLC con China," *El Mercurio*, Santiago, December 12, 2004.

55. Delamer, Goldstein, and Porn, p. 88.

56. Cristián Rodríguez and Juan Metiches, "El impacto en Chile del alza de tasas de interés en China," *El Mercurio*, Santiago, October 29, 2004. Currently, 50 percent of all copper produced by Chile is exported to Asia. See Christian Viancos, "Asia aparece como inversionista para las empresas chilenas," *El Mercurio*, Santiago, November 2, 2004.

57. Luz María Astorga, "Qué gana Chile con el APEC?" *El Mercurio*, Santiago, November 12, 2004.

58. "China Minmetals' Proposals for Noranda," FactSheet, Noranda Corporate Website, [www.noranda.com](http://www.noranda.com).

59. Alejandro Rebossio, "Pekín invierte a ritmo de salsa," *El País*, Madrid, November 21, 2004, p. 8. See also Marco Arauz Ortega, "China quiere estar más próxima a América Latina," *El Comercio*, Quito, October 26, 2004. It is also relevant that 16 percent of all Chilean copper exports currently go to China. See Cristián Rodríguez and Juan Metiches, "El impacto en Chile del alza de tasas de interés en China."

60. Christian Viancos, "Asia aparece como inversionista para las empresas chilenas," *El Mercurio*, Santiago, November 2, 2004.
61. "Más envíos a China," *El Mercurio*, Santiago, November 22, 2004.
62. Blázquez-Lidoy, Rodríguez, and Santiso.
63. Alejandro Rebossio, "Pekín invierte a ritmo de salsa," *El País*, Madrid, November 21, 2004, p. 8. See also "Chinese President Hu Jintao Present at the Closing Ceremony of China-Brazil Seminar on Trade and Economic Cooperation," *Ministry of Commerce of the People's Republic of China*, November 19, 2004. See also "Sino-Brazil Ties Enter a New Era," *People's Daily On Line*, November 11, 2004. See also Todd Benson, "China Fuels Brazil's Dream of Being a Steel Power," *New York Times*, May 21, 2004. See also Guillermo R. Delamer, Jorge Eduardo Malena Goldstein, and Gabriela E. Porn, "Chinese Interests in Latin America," in *Latin American Security Challenges: A Collaborative Inquiry from North to South*, *Newport Papers* #21, Paul D. Taylor, ed., Newport, RI: U.S. Naval War College, Newport, RI, 2004, p. 88. The trade figure includes an increase of 80 percent over 2003 alone, concentrated in expanded exports of iron and soy products, "BBVA: China es un 'ángel comercial' para América Latina," *El Universal.com*, Caracas, December 14, 2004.
64. "Brazil is China's main regional trade partner," Mercopress, Montevideo, <http://www.mercopress.com>, January 10, 2004.
65. "La cooperación con Brasil marcha más rápido," *La Nación Line*, Buenos Aires, November 9, 2004.
66. "China-Latin America Ties Enter 'Best Period of History': Experts," *www.chinaview.cn*, December 27, 2004.
67. Rebossio, p. 8.
68. "Presidente de china pasea por brasilía," *El Universal.com*, Caracas, November 13, 2004.
69. "Brasil aumentaría exportaciones crudo a China," *El Universal*, Caracas, November 5, 2004.
70. Rebossio, p. 8.
71. Marco Kamiya, "China y las estrategias de Latinoamérica," *El Mercurio*, Santiago, November 5, 2004.
72. Rebossio, p. 8.
73. "Sino-Brazil Ties Enter a New Era," *People's Daily On Line*, November 11, 2004.
74. "China Challenges U.S. in Latin America," *Miami Herald*, April 15, 2001. See also Delamer, Goldstein, and Porn, p. 89. Cynthia Watson notes that the space launch facilities available through a partnership with Brazil may also be a particular attraction. See Cynthia Watson, "A Warming Friendship: Part II of a Two Part Series on China, Taiwan, and Latin America," *China Brief*, The Jamestown Foundation, 2004.

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76. "Latin American Ambassadors on Chinese President's Upcoming Tour," *People's Daily On Line*, November 11, 2004.
77. "Magic, or Realism?" *The Economist*, January 1, 2005, p. 25.
78. "China-Latin America Ties Enter 'Best Period of History': Experts."
79. Luis Xavier Grisanti, "China en el cono sur," *El Universal.com*, Caracas, November 25, 2004. See also Rebossio, p. 8. See also Santiago Estrella, *Elcomercio.com*, Lima, November 5, 2004, Internet document, <http://69.65.159.34>. The total quantity of potential investment discussed has been up to \$20 billion, although both Chinese and Argentine spokesmen have discounted this high figure. See "China insiste en bajar tono de las expectativas," *La Nación Line*, Buenos Aires, Internet document, [www.lanacion.com.ar](http://www.lanacion.com.ar), November 9, 2004.
80. Santiago Estrella, *Elcomercio.com*, November 5, 2004, Internet document, <http://69.65.159.34>. See also Rebossio, p. 8.
81. The decrees restrict imports of Chinese textile products to an increase of 7.5 percent, and ready-made garments to an increase of 6 percent over total imports of similar products in the previous year. "Argentina Imposes Quotas on Chinese Textile Imports," *People's Daily Online*, December 17, 2004.
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83. Rebossio, p. 8.
84. *Ibid.*
85. *Ibid.*
86. "Argentina explorá cooperación con China en material nuclear," *El Universal.com*, Caracas, October 23, 2004.
87. *Ibid.*
88. "BBVA: China es un 'ángel comercial' para América Latina," *El Universal.com*, Caracas, December 14, 2004.
89. The most recent press statements refer to the pipeline ending in the Choco region. "Chávez ofrece petróleo a China," *El Universal.com*, Caracas, December 24, 2004. A number of routes have been discussed, including ending the pipeline at the Colombian port of Tribugal. "Presentan Plan para Vender Hidrocarburos A Través Colombia," *El Universal.com*, Caracas, October 9, 2004. See also "Chávez y Uribe hablarán hoy de energía e integración en Cartagena," *Elnacional.com*, Caracas, November 9, 2004.

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92. Robin Nieto, "Venezuela Signs \$100 Million Gas Pipeline Deal with Colombia," *Venezuelanalysis.com*, July 15, 2004.

93. "La Respuesta de Hugo," *El Universal.com*, Caracas, October 10, 2004. See also *Venezuela, EIA Country Analysis Brief*, June 2004, <http://www.eia.doe.gov/emeu/cabs/venez.html>.

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95. Santiso.

96. "Peru-China Relations in Best Period of Time: Peruvian President," *People's Daily Online*, January 28, 2005. See also "Peru, China to Establish Partnership of All-around Cooperation," *People's Daily Online*, January 27, 2005.

97. "Peru, EIA Country Analysis Brief," May 2004, <http://www.eia.doe.gov/emeu/cabs/peru.html>.

98. "Pluspetrol quiere invertir en Venezuela," *Descifrado, descifrado@hispanicnewspress.com*, February 2, 2004.

99. "Ecuador," *EIA Country Analysis Brief*, February 2004, <http://www.eia.doe.gov/emeu/cabs/ecuador.html>.

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101. "Sichuan Urea Firm to Build JV in Bolivia," *People's Daily Online*, September 10, 2004.

102. "Chávez ofrece petróleo a China," *El Universal.com*, Caracas, December 24, 2004. See also "Venezuela Agrees to Export Oil and Gas to China," *New York Times*, December 28, 2004.

103. Yolanda Ojeda Reyes, "Aspiran Abaratar Envío de Crudo a China," *El Universal.com*, Caracas, December 30, 2004.

104. Delamer, Goldstein, and Porn, p. 95. See also China's New Role in Latin America, *WorldNetDaily.com*, Stratfor, May 10, 2001.

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106. "Hu da espaldarazo a Castro con promesa de nuevas inversiones," *El Mercurio*, Santiago, November 24, 2004.
107. *Ibid.*
108. "Presidente Chino llega mañana a Cuba," *El universal.com*, Caracas, November 21, 2004.
109. Santiso.
110. "China-Mexico Trade Cooperation has Broad Prospect: Vice President," *People's Daily Online*, January 25, 2005.
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112. Blazquez-Lidoy, Rodríguez, and Santiso. See also Santiso.
113. "China-Mexico Trade Cooperation has Broad Prospect: Vice President."
114. "China, Mexico to Further Promote Ties," *People's Daily Online*, January 25, 2005.
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120. See "Peru, China to Establish Partnership of All-around Cooperation." See also "Peru-China Relations in Best Period of Time: Peruvian President"; "China-Mexico Trade Cooperation has Broad Prospect: Vice-President"; "China, Venezuela Should Expand Cooperation: Vice President," *People's Daily Online*, January 30, 2005; "Trinidad and Tobago Recognizes China's Full Market Economy Status," *People's Daily Online*, February 1, 2005.

121. "China, Latin America to further Enhance Legislative Cooperation," *People's Daily Online*, January 27, 2005.
122. "China, Andean Community to Promote Cooperation," *People's Daily Online*, January 28, 2005.
123. "CPC Willing to Promote Development of China-Venezuela Relations: Senior Official," *People's Daily Online*, December 20, 2004.
124. "China Challenges U.S. in Latin America," *Miami Herald*, April 15, 2001. Delamer, *et al.*, contest this position, however, arguing that there are no credible sources to confirm that China is actually collecting signal intelligence at Lourdes, and that the original Russian sources of this information may have ulterior motives. Delamer, Goldstein, and Porn, p. 95. See also "Russia Warily Finesses China Ties," *Stratfor.com*, [www.cdi.org/russia/216-10.cfm](http://www.cdi.org/russia/216-10.cfm), July 24, 2002.
125. "China Challenges U.S. in Latin America."
126. "China, Ecuador Vow to Further Military Ties," *People's Daily Online*, December 2, 2004.
127. Chinese, Bolivian DMs Confer in Beijing," *People's Daily Online*, November 2, 2004.
128. Miguel A. Vergara Villalobos, "La Marina de Chile se proyecta al Pacífico," *El Mercurio*, Santiago, November 12, 2004.
129. See Fernando Gualdoni, "China 'conquista' América Latina," *El País*, Madrid, p. 3.
130. See Cynthia Watson, "A Warming Friendship: Part II of a Two Part Series on China, Taiwan, and Latin America," China Brief, The Jamestown Foundation, 2004. Watson notes, however, that Ecuador has moved cautiously, motivated in part by concern over dependence on Chinese investment.
131. Ecuadoran President Lucio Gutierrez is politically marginalized, and the country faces both a powerful indigenous movement and spillover effects from the Colombian civil war. Attention to the impact of the Colombian civil war on Ecuador has grown over the past year as the Colombian army has implemented Plan Patriota in neighboring Putumayo and Nariño states.
132. The plan to export Bolivian gas through the Chilean port at Arica was so politically explosive that it prompted a series of riots and the downfall of the previous government of Gonzalo Sanchez de Lozada.
133. "Chile y China listos para TLC," *El Mercurio*, Santiago, October 30, 2004.
134. "APEC en Chile," *El Mercurio*, Santiago, November 24, 2004.
135. China and Chile officially launched negotiations to establish a free trade area between the two countries on January 25, 2005. See "China, Chile launch FTA talks," *China View*, [www.chinaview.cn](http://www.chinaview.cn), January 25, 2005. See also Alejandro Rebossio, "Pekín invierte a ritmo de salsa," *El País*, Madrid, November 21, 2004, p. 8; "China reitera en Chile promesas de fuertes inversiones in América Latina," *El*



*País*, Madrid, November 21, 2004, p. 1; "Mandatario chino optimista por TLC," *El Mercurio*, Santiago, November 14, 2004; Chile y China listos para TLC, *El Mercurio*, Santiago, October 30, 2004.

136. M. De Los Ángeles Naudon D, "Qué esperan los empresarios chilenos de la cumbre?" *El Mercurio*, Santiago, November 9, 2004.

137. See Marco Kamiya, "China y las estrategias de Latinoamérica," *El Mercurio*, Santiago, November 5, 2004. See also Delamer, Goldstein, and Porn, p. 89.

138. Pablo Rodas Martini, "Críticas a la maquila regional," *El Periódico*, Guatemala, Internet document, [redaccion@elperiodico.com.gt](mailto:redaccion@elperiodico.com.gt), August 2, 2004.

139. Blazquez-Lidoy, Rodriguez, and Santiso, "Angel or Devil? Chinese Trade Impact on Latin American Emerging Markets."

140. Blazquez-Lidoy, *et al.*, argue that Latin American ports are perceived as relatively inefficient and plagued with significant customs delays and infiltration by organized crime. They go on to argue that such efficiency issues are a major factor in overall shipping costs. See Blazquez-Lidoy, *et al.* See also A. Deardoff, "Local Comparative Advantage: Trade Costs and the Pattern of Trade," University of Michigan Gerald Ford School of Public Policy, Discussion Paper, No. 500, <http://www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r500.pdf>, February 2004.

141. Andreas Oppenheimer, "El temor al Made in China, un impulse para el ALCA," *Miami Herald*.

142. "25 Countries Recognize China's Market Economy Status," *People's Daily Online*, December 9, 2004.

143. See "China avanza en asociaciones con Latinoamérica," *El Universal.com*, Caracas, December 3, 2004. Ecuador is another nation in which specialization of trade that disadvantages Latin American manufacturing is emerging. Ecuadorian exports to China are currently only a tenth of imports from China, with the vast majority of those exports concentrated in the petroleum sector. In 2003, Ecuador exported \$13.5 million in goods to China, from a total of \$267.7 million in bilateral trade. Exports were concentrated in crude oil, fuel oil, bananas, plastics, and ivory palm oil. Of the \$500 million in Chinese investment currently in Ecuador, the vast majority is in the petroleum sector. "La oferta de bienes de China crece en el país," *Elcomercio.com*, Quito, October 27, 2004.

144. The ultimate outcome of these new trade patterns are far from certain. As Delamer, *et al.*, point out, the introduction of China into the WTO will force the nation to open up its markets to a wide variety of products from Latin America, as well. Delamer, Goldstein, and Porn, p. 90.

145. Daniel H. Rosen, "How China is Eating Mexico's Lunch," *The International Economy*, p. 24.

146. The proposed legislation would increase the fee charged for an investment visa from \$1,400 to \$20,000, and would raise the quantity of investment required from \$2,400 to \$30,000. "Cada vez entran más chinos al país," *Elcomercio.com*, Quito, October 28, 2004.

147. "Magic, or Realism?" *The Economist*, January 1, 2005, p. 26.
148. "La controversia por el antidumping," *La Nación Line*, Buenos Aires, Internet document, [www.lanacion.com.ar](http://www.lanacion.com.ar), November 9, 2004.
149. Alejandro Rebossio, "Pekín invierte a ritmo de salsa," *El País*, Madrid, November 21, 2004, p. 8.
150. "Mexico, Peru Become Tourism Destination for Chinese Citizens."
151. *Ibid.*
152. Carola Zúñiga, "Chile pide a China comenzar en enero con primera ronda de TLC," *El Mercurio*, November 26, 2004; Juan Carlos Llorca, "Recomiendan abrir en China oficinas comerciales," *ElPerioódico*, Guatemala, Internet document, [redaccion@elperiodico.com.gt](mailto:redaccion@elperiodico.com.gt), November 9, 2004. See also "Los turistas chinos se multiplican por todo el planeta," *El Universal.com*, Caracas, November 11, 2004.
153. Yolanda Ojeda Reyes, "Ciudadanos Chinos Reciben Protección," *El Universal*, Caracas, November 11, 2004.
154. Pekín pide que se protejan derechos ciudadanos chinos en Venezuela," *El Universal.com*. Caracas, Internet document, November 9, 2004. See also Reyes, "Ciudadanos Chinos Reciben Protección."
155. "Cada vez entran más chinos al país," *Elcomercio.com*, Quito, October 28, 2004.
156. Delamer, Goldstein, and Porn, p. 93.
157. Delamer, *et al.*, write that Chinese mafias operating in the region allegedly carry out operations with an Islamic terrorist group, Gamaa Islamiya. Delamer, Goldstein, and Porn, p. 94. See also Roberto Godoy, "Triple Border Area Monitored during the Past 20 Years," *O Estado de São Paulo*, November 11, 2001.
158. Delamer, *et al.*, note that Fu Chin, a triad with ethnic and geographic ties to the Fujian province of Southern China, is currently one of the most powerful Chinese organized crime groups operating in the region, with a focus on illegal immigration. Delamer, Goldstein, and Porn, p. 91.
159. "El Sur de China atraviesa por la peor escasez de agua desde 1951," *El Nacional.com*, Caracas, November 11, 2004.
160. *Ibid.*